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FM AMEMBASSY TOKYO  
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INFO RUEHMO/AMEMBASSY MOSCOW PRIORITY 1097  
RUEHKSO/AMCONSUL SAPPORO PRIORITY 7999

C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 003449

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E.O. 12958: DECL: 06/18/2016  
TAGS: [PREL](#) [PBTS](#) [ETRD](#) [ECIN](#) [JA](#) [RS](#)  
SUBJECT: THE VIEW FROM JAPAN'S NORTHERN EDGE: ABSENCE OF  
JAPAN-RUSSIAN PEACE TREATY BLAMED FOR WEAK ECONOMIC TIES

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Classified By: Political Minister Counselor W. Michael Meserve. Reason  
: 1.4 (b)(d).

[11.](#) (C) Summary and Comment: The lack of a peace treaty hinders development of relations between Russia and neighboring Hokkaido, according to local officials. City officials in Wakkanai, Japan's northern-most city and close neighbor of Russia, point to visa and customs issues as preventing increased economic exchanges. Additionally, cultural exchanges between Wakkanai and Sakhalin Island as well as other public services have fallen prey to budget cuts implemented to preserve the subsidized ferry service linking Wakkanai to Sakhalin. Efforts to attract Russian tourists and increase ridership on the cross-strait ferry have produced no substantial results, however. The number of Russian ships and crewmembers entering Wakkanai have decreased since foreign vessels over 100 tons were required to obtain insurance under a new Japanese law which targeted North Korea, but also impacted Russian shippers and trade. Given these difficulties, it is unlikely that Wakkanai will be able to significantly develop its ties to Sakhalin without substantial assistance from the central government. End Summary and Comment.

[12.](#) (C) Embassy Tokyo Political Officer journeyed to Japan's northern prefecture, Hokkaido, June 4-8 to explore local perceptions of Russo-Japanese relations. In the small, northern-most city of Wakkanai, city officials revealed that they view exchanges with Russia's Sakhalin Island as the key to the city's future development. The continuing territorial dispute with Russia over four Southern Kurile islands, which Japan claims as its Northern Territories, is the primary barrier to concluding a peace treaty and officially normalizing relations. Consequently, they believe, the dispute is harming trade and other relations.

Local-Level Peace Treaty Woes: Customs  
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[13.](#) (C) At the Wakkanai Chamber of Commerce on June 5, Executive Director Katsumi Ogawa claimed that the absence of a peace treaty is the primary trade barrier between Sakhalin and Wakkanai. Specifically, visas issues and customs barriers are two areas that could be improved if Japan and Russia were to normalize relations, Ogawa stated. Wakkanai Deputy Mayor Hiroshi Kudo likewise insisted that customs hurdles prevent increased trade between Wakkanai and Sakhalin, and that a formal peace treaty could increase economic exchanges.

[14.](#) (C) Currently, goods flowing into Sakhalin from Japan face high tariffs that would be eliminated if Japan and Russia were to normalize relations, Ogawa asserted. Noting that China has a privileged status in Russia's tariff system, the

disparity in tariff rates between Japan and China results in Japan's inability to trade with Russia on an equal footing. In addition, the slow speed at which Japanese goods pass through Russian customs has frustrated both Wakkanai businesses and the municipal government. Long, unexplained delays and frequent personnel changes are the norm in dealing with Russian customs, Wakkanai Municipal Office Sakhalin Section Chief Masaaki Narisawa reported. For example, last year Russia suddenly raised its tariff on Japanese goods without notifying the Wakkanai Municipal Sub-Office located in Yuzhno-Sakhalinsk. The lack of transparency and communication on tariff regulations present a particularly difficult hurdle for small- to mid-sized businesses attempting to trade with Russia, Ogawa noted.

15. (C) Wakkanai was accepted as a designated special zone in April 2003 as part of Prime Minister Koizumi's structural reforms aimed at stimulating the economy by increasing deregulation in designated areas. This reduced some trade barriers through preferential measures that halved the after-hours customs clearance commission and extended customs' business hours from 1700 to 1900. Deputy Mayor Kudo is currently campaigning to elevate the special designation to free-trade-zone status between Wakkanai and Sakhalin. This, he believes, would facilitate a reciprocal elimination of Russia's high tariff rate and allow Japanese goods to be more competitive in the Russian market.

16. (C) In an effort to further accelerate customs clearance and provide support for Japanese companies navigating the Russian bureaucracy, the Wakkanai Municipal Office invited Russian customs brokerage firm Rostek to establish an office in the Wakkanai Japan-Russia Economic Exchange Association. Logistics Specialist Nikolay Makarov, a former Russian customs official who is one of four Rostek-Sakhalin employees that will rotate through the Wakkanai branch office, explained that ensuring Japanese goods' prompt passage

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through customs in Sakhalin is simply a matter of preparing the correct documents in advance. He confided that Rostek can easily navigate the Russian bureaucracy and dramatically reduce the number of days in the clearance process because "it is the only customs brokerage firm the Russian government trusts and will work with." This trust most likely stems from the fact that Rostek is an offshoot of Russian customs.

Local-Level Peace Treaty Woes: Three Views on Visas  
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17. (C) Delays in visa issuance, too, have taken a toll on Russian and Japanese businesses, Executive Director Ogawa reported, and hindered the exchange of people between Wakkanai and Sakhalin. It takes one month for a Russian citizen to receive a Japanese visa, and about three weeks for a Japanese citizen to receive a Russian visa. Of course, Ogawa noted wryly, if you pay three times the normal visa fee to the right person, a Russian visa issuance can always be accelerated. Single-entry visas are standard, Ogawa continued, unless the applicant is a high-ranking official or internationally recognized. However, Wakkanai's designation as a special zone currently allows Japan to issue multiple entry visas to Russian company employees who are arranging Russian customs clearance for materials related to Sakhalin energy development. If Japan and Russia were to normalize relations, that could "open the door for a special visa waiver program," speculated Ogawa.

18. (C) Hokkaido Prefectural Government's Russian Affairs Group, Commerce and Economic Exchange Division Deputy Director Kazuhiro Ueno was more optimistic about other solutions to visa woes. Ueno noted an agreement from the Putin-Koizumi Summit in November 2005 that placed visa issues on the bilateral agenda. In February 2006, a working-level group was established to create a framework that would focus on extending reciprocal visa validity to three years and

reduce overall issuance time, Ueno reported.

¶9. (C) Russian Consul Sergey Kastronov, of the Russian Consulate in Sapporo, told visiting Embassy Tokyo Political Officer that he disagrees with the assertion that a peace treaty would solve bilateral visa problems. Russia has normalized relations with China and South Korea, Kastronov noted, yet its citizens are still required to obtain visas for travel to Russia. Russia's current domestic policy does not allow visa waiver programs, and domestic law would not change "even with a peace treaty," Kastronov relayed. The best hope for relaxing visa laws between Russia and Japan rests with the working-level groups focusing on the bilateral agreement from the November 2005 Summit, Kastronov indicated, not with normalized relations.

#### Budget Cuts Slashing Cultural Exchanges

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¶10. (SBU) Cultivating personal ties through cultural and other exchanges is part of Wakkanai's efforts to further development of economic ties, Executive Director Ogawa remarked. Through a business exchange program funded by the Wakkanai Chamber of Commerce, six Russian trainees are selected each year from the three Sakhalin sister cities of Nevelisk, Korsakov and Yuzhno-Sakhalinsk to train in a Wakkanai-based company for two months. Participants are chosen by the mayor of each sister city, and many exchange program alumni have risen to prominent positions in Sakhalin, Ogawa noted. Additionally, a student-exchange program is conducted between Wakkanai Hokusei Gakuen and Sakhalin National University, with a total of 98 students participating since its inception in 1991.

¶11. (SBU) Two exchange programs, however, have recently fallen prey to Wakkanai's budget cuts. To promote cultural exchanges, the municipal government set up Sakhalin House, a cultural center where Russian entertainers and dancers performed during the winter months, Deputy Mayor Kudo stated, but the municipal government was forced to close the facility last year for financial reasons. Also, the high school-level exchange between Sakhalin and Wakkanai commerce and industry students was also suspended last year due to budget cuts.

#### Wakkanai, Not Tourist-Friendly

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¶12. (C) The absence of a peace treaty has also reduced the number of Russians coming to Wakkanai for tourism, Chief Narisawa asserted. Like other Wakkanai city officials, Narisawa believes normalized relations would produce a special visa waiver program for Wakkanai and Sakhalin. While the city's stated goal is to attract more Russian tourists, Wakkanai residents have not succeeded in creating a

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tourist-friendly environment for foreigners. Despite widespread reports that Russians are refused entry into Japanese hot springs baths for fear they would eat, drink, or act up in the bath, Narisawa claims this only occurs in other areas of Hokkaido and not Wakkanai. However, Narisawa admitted, Russians are sometimes refused service in Wakkanai restaurants and stores because the owners are "afraid of the language barrier."

¶13. (C) Chief Narisawa implied that a future peace treaty could, ironically, deliver another potential blow to Wakkanai's tourism industry. As the island of Etorofu -- one of the four disputed islands -- extends slightly further north than Wakkanai, "Japan's Northern-most Point" title would be stripped from the city if all four islands were returned. Most Wakkanai citizens are indifferent to the "title" issue, Narisawa confided, since the city's primary concern is normalized relations with Russia.

¶14. (C) There are currently plans to expand the customs area

and number of docking points for the various ferry services in Wakkanai, including the cross-strait ferry service that runs from Wakkanai to Korsakov. The ferry runs 60 times per year, from April-December, carrying an average of 5,000 people annually. A private company, heavily subsidized by the Wakkanai municipal government, operates the ferry, Deputy Mayor Kudo explained. The Wakkanai Municipal Office has requested financial assistance from the national and Hokkaido governments, but has yet to receive an encouraging response. Other cities in Hokkaido have direct access to Sakhalin via ferry service from Otaru or direct flights from Hakodate and Shinchitose airports, and wealthier Russians prefer these destinations to Wakkanai. Under current circumstances, the Wakkanai ferry service will most likely continue to operate at a loss. Nevertheless, Kudo emphasized how important the ferry service is to future Wakkanai-Sakhalin relations and declared that they "cannot and will not stop this ferry operation."

¶15. (C) At the Hokkaido Government Souya Subprefectural Office in Sapporo, Sakhalin Exchange Promotion Section Chief Masayuki Suzuki pointed to the high cost of a round-trip ticket on the ferry, even with the subsidies, as another deterrent to Russian tourists. The average monthly salary of a Sakhalin resident is 64,000 yen (approximately USD 550), yet the round-trip ticket costs 31,000 yen. Suzuki believes "zero percent" of Russians use the ferry service for tourism. As for increasing Japanese ridership on the ferry, Chief Narisawa noted the high cost of tourism to Sakhalin deters most would-be Japanese ferry riders. Since tourists to Sakhalin are required to rent a car, hire a tour guide and stay in accommodations averaging 14,000 to 20,000 yen per night, Japanese tourists would rather spend similar amounts on more "tour-worthy" locations, Narisawa explained.

#### Russian Fishing Ships Entering Wakkanai Continue to Decline

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¶16. (C) On average, Russian crewmembers spend 1.5 billion yen (approximately USD 13 million) annually in Wakkanai stores and restaurants, Chief Narisawa reported. However, this number is projected to decline due to the revised Japanese Marine Vessels Oil Pollution Liability Law that came into effect March 2005 requiring foreign vessels weighing 100 tons or more to obtain Protection and Indemnity Insurance in order to enter a Japanese port. As many Russian fishing ships are over 100 tons and cannot afford the insurance, the new law has affected the number of Russian fishing ships entering Wakkanai port. 1,097 ships entered in FY 2005, down from 1,858 in FY 2004. Consequently, the number of Russian crews entering Wakkanai dropped to 25,903 in FY 2005 from 35,901 in FY 2004. Narisawa believes these ships are opting to travel to China and Korea instead, preferring to pay the added fuel costs than the more expensive insurance. Narisawa added that the price of insurance is scheduled to increase from 140 million yen to 640 million yen this year, which would further reduce the number of Russian fishing ships entering Wakkanai. The Wakkanai Municipal Office is lobbying appropriate Diet members to exclude Wakkanai from this requirement, but so far its efforts have been in vain.

Comment

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¶17. (C) Wakkanai officials are using the absence of a peace treaty as a convenient but not very plausible excuse to explain the difficulties involved in increasing Wakkanai-Sakhalin exchanges. It is questionable whether normalized relations would produce a substantial increase in economic and cultural exchanges. City officials view the ferry service as the vital lifeline to Sakhalin and are

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willing to sacrifice other public projects to continue subsidizing its operation. While the city officials repeatedly pointed to increased tourism as a citywide

objective, there are no specific plans to transform Wakkanai into a "tour-worthy" location. Given these difficulties, it is unlikely that Wakkanai will be able to significantly develop its ties to Sakhalin without substantial assistance from the central government.

SCHIEFFER